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Speech at Australian Finance Conference, Adelaide

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Mr. Chairman, ladies and gentlemen :

Thank you very much for inviting me to speak to you today.

The State Division of the Australian Finance Conference is technically beginning a new year today.

I'm sure that everyone in this room hopes it will be an improvement on the last one.

I believe it will be and I'd like to take some time today to explain why and to speak generally about the Australian and State economies.

In doing so I must say at the outset that to a very large extent what happens to the State's economy, at least in the short run, is beyond my Government's control.

Federal Government action to stimulate or dampen the economy tends to determine conditions prevailing across the nation.

And even here there are limits since the Federal Government - though it can act on taxing and money supply - is unable to do so effectively in the area of prices and incomes.

The need to remove this constitutional straitjacket is, I believe, the most compelling matter of public concern in Australia today.

The unique problem facing nearly all western economies (including the Japanese) is the appearance of simultaneous high inflation and high unemployment. Our problem is that it has now reached Australian shores.

It's a problem which is vexing economists and Governments and one which has not yielded to conventional Keynesian economics.

There are various elements making up our present problem.

A major initial cause of this problem was the maintenance of a large U.S. balance of payments deficit in the late 1960's (largely due to heavy defence spending in Vietnam). This led to an increase in international liquidity and consequently a world-wide boom in commodity prices resulted, triggering off the now all-too familiar wage-price spirals that afflict most western economies. The difficulties many countries have encountered in working out ways to restrain prices and incomes were exacerbated by the shock transmitted to the international economic system by the quadrupling of oil prices in a very short period from late in 1973.

These factors all, to a greater or lesser degree, had an impact on the Australian economy and they combined with the domestic situation brought about firstly a pronounced monetary expansion followed by a dramatic contraction in monetary supply - so that we had the sharp, and unacceptable rise in unemployment of late last year which persists today.

But in all of this South Australia has had the unusual experience of - in relative terms - lower than average unemployment - in January we had 8.4% of the total Australian unemployment whereas we account for 9.3% of civilian employment and should, therefore, statistically expect the same proportion of unemployment.

In fact, because of our dependence on the motor vehicle and consumer durables industries we normally have a higher proportion of jobless than other States because these are usually the first industries to feel the result of a credit squeeze or a fall in demand from a decline in consumer confidence.

In fact, there was a marked drop in sales in December - in the face of stiff import competition from lower tariffs. But the swift action of the Federal Government in reducing sales tax from 27½% to 15% seems to have arrived like the U.S. cavalry in the nick of time and saved the day.

Without the tax cut we would have, I'm sure, been faced with very severe unemployment indeed in the industry. With it there seems to have been a quick reduction in the stocks which had been built-up and we can expect a fairly high level of production to be maintained by G.M.H. and Chrysler.

There are, I believe, two main reasons why we have been better off.

I think my Government - with due modesty - is entitled to credit for one of them. Since 1970 we have been pursuing a vigorous policy of industrial diversification to give a broader and more stable employment base. It's a complex programme and it's necessarily a protracted process. But we have already had considerable success and I think this is one of the reasons for the relative improvement in our position.

The other reason is that we did not have a very large stake in the industries which were drastically affected by the tariff changes, textiles, clothing and footwear. They were largely centred in Victoria and the unemployment figures for that State sadly reflected this fact.

It might, as I've already noted, have been a very different story.

Had the Federal Government accepted the Industries Assistance Commission report on the motor industry we would have been in very, very deep trouble indeed.

Modification of the I.A.C. proposals was in a sense - if perhaps a negative one - the first bit of the good news.

Then most welcome of all came the rejection of the orthodox Treasury line and the initiation by Dr. Cairns of a new, flexible policy designed to stimulate the economy.

In addition to the import quotas and sales tax cuts there have been cuts in company and income tax. The income tax cut was the more pronounced for being concentrated in the last half of this financial year.

This means that the pay packets of nearly all workers have been fatter since the New Year. Take home pay was also increased by the allowance of interest payments on home loans as an income tax deduction.

The Federal Government has also provided additional assistance to the States, mostly for employment creating works and has provided extra funds for housing.

These stimuli will take a while to work through the economy - there is an inevitable lag period between an announcement and the desired result.

But I am confident that we shall soon see it. I would expect to see unemployment levels come down sharply over the next few months.

Signs of an upturn are already evident.

The January level of retail sales (excluding motor vehicles) showed a solid lift over a disappointing December. There was a heartening 4.5% lift in the seasonally adjusted figure.

Sales of colour television and cars were strong in February and likely to remain so this month and in April.

It's likely also that announcements of extra hirings (Simpson Pope made one a few days ago) will become more frequent and this will boost confidence just as a few months ago announced lay-offs dissipated it. The abstract factor of confidence can't be underestimated in a mixed economy such as ours where 75% of jobs are in the private sector.

I expect then that increased consumer demand and a lift in the housing sector (both of which will provide new business for your members) will cause a substantial fall in unemployment very shortly - by May or June.

The other problem - of containing inflation within acceptable bounds - will I fear prove more difficult to resolve.

It is, I believe, essential that we evolve an effective practical Australia-wide system of restraint. It is utterly unreal to expect workers to accept income or wage restraint in the absence of any meaningful control over prices. And that, I believe, means that this power has to be given to the Federal Government.

Our own experience proves this beyond doubt.

We have, as you know, a degree of price control. Until 1972-73 our prices were generally lower than those of other States and we also had a slightly lower rate of price growth.

Over the past 18 months or two years we have lost some of the advantage we had.

There are, I believe, several reasons for this.

The Prices Commissioner can only control goods produced and largely consumed in South Australia. He has under direct control only 9% in value of goods in the consumer price index and indirect control over a further 6%. Even on those goods legitimate cost increases must be allowed if firms are to be able to earn enough to re-invest and retain viability.

It's also interesting to note that in South Australia housebuilding costs have been particularly hard hit. One reason for this is that world timber costs have risen especially sharply, and we rely particularly on imported timber. This tended to be the biggest factor apart from labour costs. Now I'd also note that between April 1968 and May 1970 the Liberal State Government removed nearly 40 items from price control. By far the biggest category was building materials - which seems to be an extraordinary piece of short-sightedness or worse for which we are now literally paying.

The South Australian experience shows that price control can bring benefits. It also shows that it can only be made to work properly on a national basis operated under the auspices of a Federal Government able to restrain cost increases.

The Prices Justification Tribunal has shown what could be achieved nationally. But so far its successes have come about because those going before it have been willing to accept its decisions and overlook the fact that it has at the moment no teeth to enforce them.

So finally I would again make the point I made at the outset: a system of restraint is essential to our economic wellbeing and it won't be truly effective unless the Federal Government has undoubted authority in the key area of prices and incomes. It is vital that each of us who carries any influence in the matter works together to achieve it - either by legislation or referendum - before it's too late. The alternative may well be economic insanity.

Thank You.

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